Markets and Countries: Indonesia

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General information

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Indonesia is an insular bridge between two continental masses, Asia and Australia, extending along the equator for about 5,000 km. An archipelago with a total area of 1,910,931 square km, it comprises nearly 18,000 islands, of which 6,000 have a permanent population and 5,000 attract frequent visitors. It has often been described as a "country of water", a definition corresponding to the Indonesian term *tanah air kita* which, freely translated, means "our homeland", but in fact underlines the dual nature of the territory, earth *(tanah)* and water *(air)*. As a result of its physical conformation, Indonesia is home to a variegated universe of cultures, histories and traditions. The official language is *bahasa indonesia*, but there are at least 300 spoken languages and dialects, so that, for many of its inhabitants, Indonesian is their second language.
Becoming independent in 1945, Indonesia is now the world's third democracy, with an economy that has grown steadily over the last few years.


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Bhinneka tunggal ika, "unity in diversity"

The term Indonesia is a recent name for the islands that form the world's largest archipelago: it was coined by German geographer and ethnologist Adolf Bastian (1826-1905) to emphasise its insular conformation (*nesos* = island) and pervasive Indian culture, a characteristic of South East Asia in general. In fact, it was always known by the Dutch colonisers as the *Nederlandsche Indië* (East Indies or Dutch Indies). On August 17, 1945, from a crumpled piece of paper destined to become an historic document, the future president **Sukarno** (1901-1970) read Indonesia's unilateral proclamation of independence, thereby sanctioning the birth of a new state after more than 300 years of Dutch colonial rule. *Bhinneka tunggal ika*, "unity in diversity", became the country's national motto. The struggle against colonialism fuelled the new nationalism and reawakened a common sense of pride among the Indonesian population; but once independence had been won, the countless ethnic groups found themselves facing a far more complex reality: the central government remained in Java (the world's most populous island, with a surface area of 132,000 km², 114,000,000 inhabitants and a density of 864 inhabitants per km²), the national language is *bahasa Indonesia*, and yet it was the people themselves who still had to learn to feel united by a common motherland. The process of unification was based on *Pancasila*, the philosophical foundation of the united Indonesian state, a system of principles that all future Indonesians could embrace. *Pancasila* consists of two Old Javanese words rooted in Sanskrit, "*pañca*", which means five, and "*sīla*", which means principles. These principles are regarded as inseparable and interrelated:

- belief in the one and only God
- just and civilised humanity
- the unity of Indonesia
- democracy guided by the innate wisdom in the unanimity arising from deliberations among representatives
- social justice for all the people of Indonesia

A solid, flourishing economy

The size of the archipelago means that, thanks to the domestic private spending of almost 250 million inhabitants (which in 2011 accounted for 55.6% of GDP), Indonesia is less dependent on international trends than other countries in the region that are primarily trading nations. It was private consumer spending and investment that enabled the country to overcome the global credit crunch in 2008/2009 reasonably well. The latest data released by the Badan Pusat Statistik (BPS), the national statistics institute, on the country's **economic fundamentals** reflect the excellent recovery of the Indonesian economy and a return to growth

at pre-2009 crisis levels, with GDP grew at +6.5% and inflation under control at 3.79% in 2011; figures that confirm the capacity for recovery and the solidity of the leading economy of the Association of Southeast Asian Nations. It is worth noting that, since 2004, Indonesia has recorded steady growth of more than 5%, one of the best rates in the Asian area (second only to China and India in 2009).

In absolute terms, Indonesian GDP was US$ 847.4 billion in 2011 (7,427.1 trillion rupiah, IDR) compared with US$ 713.7 billion in 2010, which in IDR, i.e., without the exchange-rate effect, was an increase of 15.6%. Per capita income is also improving significantly, rising from 2,981 dollars in 2010 to 3,509 dollars in 2011 (+17.7%). Meanwhile, the World Bank has estimated that Indonesia's middle class expanded by 61.73% from 2003-2010 (from 81 million to 131 million), a faster growth rate than China's middle class.

The insurance industry

This is the background for the healthy development of Indonesia's insurance market, a sector that has shown significant growth in the last few years in both life and P&C, with **aggregate premiums** almost **doubling** over five years. In 2011 aggregate premiums increased from US$ 8,643 million in 2010 to US$ 10,444 million (with life insurance accounting for 70.3% of the total). The amount is close to 1.6% of GDP.

Indonesia in figures (2011, except where indicated)

Surface area	1.910,931 km^2
Population	248,645,008 (estimate July 2012)
Life expectancy	71,6 years
GDP	US$ 894,9 billion (+6.2%) (2012)
GDP per capita	US$ 3.509
Inflation	3,79%
Cell phones	249,8 million
Unemployment rate	6,7%
Domestic premiums	€ 10.369 million
Insurance spending per capita	US$ 36,09
Insurance penetration	1,7% of GDP


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Insurance penetration in Indonesia is still very low, at 1.7%, significantly less than the 4% recorded by neighbouring countries like Singapore or Malaysia. Yet the national insurance sector is reporting impressive progress in all segments. In 2010 Life premiums totalled € 6,314 million, while P&C, which accounts for 25.0% of total premiums (Life and P&C), amounted to € 2,103 million.

The unfavourable economic conditions in the industrialised countries will have a negative impact on the emerging countries' markets, although the effect on Indonesia, as noted earlier, will be contained by the considerable size of its domestic market.

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The Indonesian **insurance market** is one of the fastest growing in the world, reporting 23.2% growth in 2011.

According to BAPEPAM-LK, the Financial Institution and Capital market Supervisory Agency, which also monitors the insurance industry, about 10% of the population purchased some form of life cover in 2012, mostly micro policies.

A series of **major reforms** are being introduced in the insurance sector to bring local laws and regulations in line with international standards. Parliament has approved a new framework law on financial services, for example providing for the creation of the *Otoritas Jasa Keuangan* (OJK), an independent financial authority which, since 1 January 2013, has taken over from the BAPEPAM-LK in regulating and supervising the insurance sector. In the run-up to full application of the **ASEAN Free Trade Area** (AFTA) in 2015, the reforms also establish measures aimed at aligning minimum solvency margins. Although this particular measure has helped consolidate the market, so far it has not fuelled a real wave of mergers and acquisitions. However, the number of insurance companies continues to decrease, with a 10.2% reduction between 2006-2010.

At the moment, the first five companies account for 38.6% of the market, a share that rises to 57.2% for the first 10 insurers.

Business progress has been particularly significant in the **life segment**, where a growing middle class has taken advantage of an increasingly broad range of insurance products. According to BAPEPAM-LK figures, the 26 life insurance

companies (of 46 companies) offered mostly investment-linked and healthcare products. Despite a 175% increase in premium volumes in the 2006-2010 five-year period, insurance penetration in this sector continues to be less than 1%, in part as a result of a low level of awareness and understanding of social security concepts.
Nevertheless, all players agree that their business operations have improved significantly thanks to a series of factors, including:

- the rapid expansion and improved performance of the agency network
- the development of bancassurance ties with the country's leading banks
- the development of new insurance products.

The **P&C** market, on the other hand, is highly fragmented with 84 companies. While legislation designed to making motor insurance mandatory has yet to be introduced, the P&C business continues to be driven by the motor segment (45.8% of P&C business volumes), which in 2011 reported 894,164 new vehicle registrations, up 17% from the previous year. In 2009 there were 79 cars on the roads per 1,000 inhabitants.

An area of particular interest is **Nat-cat** insurance. Indonesia has the most active volcanoes of the so-called Pacific Ring of Fire, an area with frequent earthquakes and volcanic eruptions extending along almost the entire terrestrial equatorial circumference. Considering that 90% of the world's earthquakes occur within the Ring of Fire – the December 2004 tsunami, the Nias earthquake in 2005 – purchase of policies against damage from seismic events continues to be very low in Indonesia. In 2003, in cooperation with the Ministry of Finance, the insurance industry formed a National Earthquake Insurance Pool, subsequently transformed into a catastrophe reinsurance company, whose partners – all of Indonesia's insurance companies – are required to provide from 5 to 25% of all premiums underwriting seismic risks.


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The government and insurance industry association are examining the possibility of mitigating major risks – also in light of Indonesia's growing urbanisation and economic growth – by drawing up an ad hoc financial strategy to deal with the risks of nat-cat events.

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A potential key driver of the insurance market is ***takaful***, a type of Islamic insurance based on Sharia, which has particular appeal in Indonesia, home to the world's largest Muslim population. To foster the development of the *takaful* industry, legislation will have to be modified in order to gradually improve its legal and operating bases. At the moment there is no separate licence for *takaful* operations, which are usually handled by a special unit of an insurance company. A decisive legal reform envisages the spin-off of these units into fully fledged *takaful* insurers. The result should be a significant increase in *takaful* business volumes in Indonesia, which in 2010 amounted to US$ 400 million, with annual growth of 33% in the three years 2007-2010. The country with the most developed *takaful* sector, with volumes of approximately US$ 1 billion, is Malaysia.

***Takaful*, a "joint guarantee" without interest, uncertainty and speculation**

The term *takaful* comes from the Arab word *kafalah*, meaning "to guarantee one another" or "joint guarantee", that is, an agreement in which every member of a group is guaranteed against eventual losses and damages. Muslim jurists say that the roots of Islamic mutual insurance – an archaic form of which already existed in the VII century – lie in the al *aqilah* (doctrine of shared responsibility) and in the concepts of *hilf* (alliance) and *dhaman* (guarantee, indemnity). Modern Islamic insurance began in 1836 when Hanafi jurist Sayed Ibn Abdin declared that the conventional transport insurance contracts of the time could not be considered lawful, since they contained elements of *riba* (**interest**), *gharar* (**uncertainty**) and *maysir* (**speculation**). The result was the creation of *takaful*, a form of insurance compliant with the dictates of **Sharia**. Sharia literally means "the pathway" in the sense of the *Pathway of God* that, in keeping with the Quran, Muslims must follow. It sets out the rules that govern every aspect of the Muslim's existence, drawn essentially from the Quran, the verbatim word of God, and from the Sunnah, words, deeds, and silent approvals of the Prophet Muhammad. The first *takaful* company was not formed until 1979 in Sudan, four years after the approval of *takaful* by the Supreme Council of Saudi Arabia. In 2008 there were 253 *takaful* companies worldwide, with premiums totalling US$ 5.3 billion. Mention should be made of *takaful* insurance distribution channels, of which there are essentially four: agencies, banks, mosques and the internet. Of these, without doubt the most interesting is what is known as *mosqueassurance*, which in its simplest form uses the mosque to promote *takaful* among the faithful. The channel does not contradict the essence of the mosque since mosques also have a social function. In Indonesia some insurers seek the assistance of *imam* or religious leaders to make presentations and hold meetings in mosques.

Another sector with excellent growth potential is **microinsurance** , given that most of the population lives in rural areas, where poverty is common. Microinsurance meets the various requirements of people's lives, with life assurance and covers against accidents, illness, theft, natural catastrophes and so on, although the most developed area is life assurance. Even so, the life segment suffers from a series of difficulties preventing it from realising its full potential. One of the issue is the lack of infrastructure, and of statistics and data such as the historic data

used by insurance companies to draw up mortality tables, compute premiums and so on. Indonesia is also hampered by difficulties in distribution and new product development, due to its highly complex geographical and cultural conformation as an archipelago with 18,000 islands.
The analysts agree that prospects are bright for the Indonesian insurance industry, thanks to the positive trend in domestic consumer spending, growing household wealth and massive investments in infrastructure which are fuelling demand for all types of insurance cover. With a population of more than 240 million people, over half of whom are under 29, a growing economy, high propensity to save and low insurance penetration, the **outlook is positive**. A clear reflection of this is the significant presence of **foreign insurance companies**.
International companies are an important presence on the Indonesian insurance market. They include PT Prudential Life Assurance, the leading life player with a market share of 13.9% in 2010, followed by Allianz, AIA, Manulife and AXA Mandiri. The top twenty companies in the P&C segment include four international players.

Generali Indonesia

The Generali Group entered the Indonesian life insurance market in January 2009.

In Indonesia, Generali implements a multi-channel distribution strategy based on bancassurance and corporate clients, as well as on the agency network set up in 2011 and still being expanded. With 47 agencies operating to date across the country, the network provides Generali with geographical and service

distribution capacity. The company also distributes its life products through alternative channels such as micro-finance companies.

In a country where more than 50% of the population is under the age of 29, **innovation** is an important point of focus for Generali Indonesia. The company is a pioneer in insurance investment solutions for the retail market. It offers insurance products with its registered proprietary Automatic Risks Management System (ARMS), which uses a balancing mechanism, customized to every single clients, to protect and maximise invested assets. For its clients, Generali Indonesia has also developed the ***iSERVICES**, iCLICK* and Smartphone Application online platform and, for its agency network, the ***iCONNECT*** portal to facilitate access, transparency and speed "In a country which expects to have 100 million internet users by 2016 and is the world's fourth-largest market for Facebook, after the USA, Brazil and India, Generali Indonesia has positioned itself as a dynamic, innovative insurer using technology to create insurance solutions tailored to its clients and assist its agents," says **Roberto Gasso**, Business Performance Manager, Asia. "Indonesia today is the world's sixteenth-largest economy and is expected to rise to seventh place by 2030. The consuming class will expand from 45 to 135 million people by 2030, an increase of 90 million in just 17 years, which confirms the **excellent growth potential of the** Indonesian **life insurance market**".

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